

ISSUES PAPER FOR THE AEG JULY 2005 - SNA UPDATE ISSUE 39c**Residence: Non-permanent workers**

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A. Executive summary

Non-permanent workers have become increasingly important with the advent of globalization. The 1993 SNA and the BPM5 frameworks do not deal with the issue of non-permanent workers. The Technical Sub-group on the Movement of Persons – Mode 4 has discussed extensively ways to include non-permanent workers in the frameworks. However, the TSG found it difficult to define the universe of non-permanent workers and recommended not to deal with the concept within the core 1993 SNA and BOP frameworks. The TSG examined the definition of BPM5 transactions related to the movement of persons and recommended: (a) eliminating the concept of “migrant” from the BOP and SNA frameworks and using exclusively the concept of resident; (b) replacing the BPM5 component “workers’ remittances” with the component “personal transfers” to bring the BOP transaction in line with the 1993 SNA item “household transfers”; and (c) introducing two new BOP components, namely “personal remittances” and “institutional remittances”, to meet users’ needs. The above recommendations will eliminate the concept of migrant and bring the BOP components related to remittances in line with the 1993 SNA. They will bear no impact on the 1993 SNA transactions or aggregates. The TSG recommendations on remittances are provided here for information and will be submitted to BOPCOM for decision at its next meeting in June 2005. The AEG is invited to deliberate on the recommendation of eliminating the concept of migrants from the 1993 SNA Rev.1.

B. Background and main reasons for change

1. Monitoring the impact on home and host countries of non-permanent workers has become increasingly important with the advent of globalization. The 1993 SNA and the BPM5 do not deal with the issue. Only the concept of migrant is included, however, it is not clearly defined in BOP and 1993 SNA frameworks and de facto the concept of migrant is equivalent to the concept of resident.
2. The Technical Sub-group on the Movement of Persons – Mode 4 (TSG) discussed at length ways to include specifically non-permanent workers in the national accounts and balance of payments frameworks.

3. The *Annotated Outline of the Revision of the Manual of Payments Manual –Fifth Edition*, in its Annex to Chapter 4, discusses a satellite or alternative presentation that would bring together different components of services, compensation of employees, workers' remittances migrants' transfers financial flows and position as well as data on demographic and social characteristics of non-permanent workers. Further, UNSD prepared a paper entitled *Statistical Framework for the Measurement of Movement of Persons – Mode 4*, which describes a satellite approach to the 1993 SNA and BPM5 to present information to measure the economic impact of movement of persons in the home and host economies. Subsequently, WTO in collaboration with OECD prepared a background note on GATS Mode 4 and its Information needs. The above papers as well as three issue and outcome papers were discussed during the TSG meetings and electronically.¹

C. Recommendations

4. The TSG recommendations will be submitted to BOPCOM for deliberation at its next meeting (27 June to 1 July 2005). They include the following:

- (a) Use exclusively the concept of resident and eliminate the concept of migrant from the balance of payments and national accounts frameworks;
- (b) Replace workers remittances with a new component "personal transfers" that covers all current household-to-household transfers;
- (c) Introduce the concept of "personal remittances" to include all household-to-household transfers (current and capital) as well as net compensation of employee (net of taxes on income, social security contributions, travel and passengers' transportation);
- (d) Introduce the concept of institutional remittances to include all transfers receivable by households and NPISHs, excluding personal remittances.

5. The TSG takes the position that the concept of remittances in the BOP framework should be designed to measure the net receivable of households from employment-related flows on the primary distribution of income account and relevant current and capital transfers on the secondary distribution of income account. Consequently, it excludes from the remittances concept the exports and imports of goods and services produced under employment contracts, property income from external assets and liabilities held by households as well as related taxes.

- (a) *Use exclusively resident/non-resident and eliminate the concept of migrant in the BOP/SNA frameworks*

6. The 1993 System of National Accounts (1993 SNA) and the Balance of Payments Manual 5th edition (BPM5) define migrants as:

"Persons who have become residents of economies by virtue of being expected to live there for a year or more" (1993 SNA para 14.120 and BPM5 para 272).

¹ Papers are available on the TSG website <http://unstats.un.org/unsd/tradeserv/relDocs.asp>.

7. The definition of migrant in the economic statistics recommendations is broadly in line with the definition of long-term migrant as defined in migration statistics recommendations. While both economic and migration statistics provide a minimum time limit for a person to be considered a migrant, neither mentions when a migrant ceases to be such.

8. The TSG found it difficult to define the universe for non-permanent workers in a clear way. The concept of migrant is used by both 1993 SNA and BPM5, however a migrant is not clearly defined. Several proposals have been advanced trying to provide a criterion for defining when a migrant changes its status to a non-migrant as well as when a person should be considered “temporary” or more “permanently” residing in the host country. These criteria include: (i) citizenship - when a migrant acquires a new citizenship, he or she acquires all the rights of the receiving country and thus considered no longer a migrant in the host country; (ii) foreign birth; and (iii) a time bound criterion (e.g. after, for example, 15 years of residence in the host country a persons ceases to be a migrant; after 10 years he is no longer “temporary”).

9. All the above options were dismissed as it was not possible to agree on a single criterion. Criteria (i) and (ii) are relevant depending on countries situations. For countries where citizenship is acquired on the basis of *ius sanguinis* foreign birth would be a more appropriate criterion, for countries for which citizenship is acquired through *ius solis*, citizenship would be more appropriate.² Criteria (iii) was also dismissed because length of stay is does not represent a good indication of the intention to stay in a country, nor of the legal status of the migrant. Moreover, it is not easy to interpret (e.g. how should the length of stay be defined in the case of a person leaving the host country temporarily for a few months, a year or even longer?) and information on it is usually not collected.

10. The TSG further discussed at length the identification of GATS – Mode 4 workers within the Balance of Payments/SNA frameworks. It concluded that definition of Mode 4 workers is not clear-cut as it depends on the type of employment contracts held by the worker, the residence of the employer, whether the employer is the government or a private corporation and the activity of employer (e.g. manufacturing or services). The length of time the worker is expected to stay in the host country is not usually included in GATS commitments. Moreover, GATS commitments are applied differently in different countries.

11. Because of the above considerations, the TSG did not consider feasible to measure the impact of non-permanent workers in the host and home economies in the standard SNA and BOP frameworks. Instead, it opted to consider all residents augmented by non-residents working in the country for less than one year as the universe for the framework to measure the movement of persons. In addition, it further developed clearer definitions of existing BOP components related to the movement of persons and introduced new concepts of remittances to better capture resident-nonresident transfers (see (b), (c) and (d) below).

² *ius sanguinis* implies that citizenship is only acquired by blood, *ius solis* by place of birth (*ius solis*).

12. The TSG, in addition, is working on an alternative/satellite presentation for non-permanent workers, including GATS – Mode 4 workers. In particular, it is developing alternative ways to “slice” the universe of resident and non-resident workers to meet the different policy needs.

(b) Personal transfers³

13. The TSG considered the definition of workers’ remittances too narrow and not precise enough. It recommended to change the existing definition of workers remittances in BPM5 to bring it in line with the 1993 definition of current transfers between households. Personal transfers would be defined as:

Personal transfers consist of all current transfers in cash or in kind made, or received, by resident households to or from other non-resident households.

14. Personal transfers thus include all current transfers from resident to non-resident households, independently of (a) the sources of income of the sender (be it wages and salaries, social benefits or any other type of transfers, including transfers from a person receiving no income and running down his/her assets); (b) relationship between the households (be it between related or unrelated persons); (c) purpose for which the transfer is made (be it inheritance, alimony, lottery, etc.).

15. Table I in the Annex shows the transactions included in the definition of personal transfers. The 1993 SNA classification of distributive transactions (D) is used for ease of reference. In addition to transfers between households, lotteries and gambling and compulsory payments are included in the definition of personal transfers. For lottery and gambling, only the transfers above the service charge, which may be significant, are considered household to household transfers (1993 SNA para. 8.97). However, in the context of the Balance of Payments statistics it may be difficult to separate service charges from the transfers paid out to the winners. It is therefore recommended, in the BOP context, to include as part of personal transfers, the total of service charge and payment to the winner. Compulsory payments awarded by court or *ex-gratia* payments agreed out of court include, for example, alimony.

16. Personal transfers would thus include the BPM5 components of workers’ remittances and the household-to-household transfers recorded in other current transfers.

17. The TSG recommended unanimously to record personal transfers as standard component in the BOP framework and noted that some countries are already implementing this recommendation.

(c) Personal remittances

³ The definition of personal transfers is discussed in Outcome paper #1 and it is available on the TSG website.

18. In order to meet the policy demand, the TSG recommended the introduction of a memorandum item named “personal remittances” defined as follows:

Personal remittances consist of current and capital transfers in cash or in kind, made or received, by resident households to or from non-resident households and “net” compensation of employee from persons working abroad for short periods of time (less than one year).

19. Personal remittances would be derived as the sum of (i) “net” compensation of employees; (ii) personal transfers, previously defined; and (iii) household to household capital transfers. “Net” refers to compensation of employees net of taxes on income, social security contributions, travel and passengers’ transportation related to the short-term employment.

20. Table I in the Annex shows the transactions included in the definition of personal remittances. The 1993 SNA classification of distributive transactions (D) is used for ease of reference.

(d) Institutional remittances and total remittances

21. The TSG considered important, to obtain a more complete picture of the aid receivable ultimately channeled to communities and households in the home countries. It therefore recommended to introduce a new memorandum item in the balance of payments called institutional remittances defined as follows:

Institutional remittances consist of current and capital transfers in cash or in kind payable by any resident sector (i.e. households, government, corporations, and NPISHs) to non-resident households and NPISHs and receivable by resident households and NPISHs from any non-resident sector and excluding household to household transfers.

22. Table II in the Annex shows the transactions included in the definition of institutional remittances. As in Table I, the 1993 SNA classification of distributive transactions (D) is used for ease of reference. Institutional remittances include payments to households from non-resident government, non-profit institutions serving households and corporations in the form of social benefits (social security and assistance), transfer in kind and compulsory payments. The TSG did not discuss inclusion of net non-life insurance premiums and non-life insurance claims (D.71 and D.72) as part of institutional remittances. However, the question of whether these flows should be included has been raised because they contribute to the redistribution of resources between households through the intermediation of the insurance company.⁴ Life insurance is not included in the definition of institutional remittances because it affects the transactions in the financial accounts and balance sheets which are outside the scope of the definition.

⁴ This issue will be raised at the next BOPCOM meeting in June 2005.

23. It was agreed that, similarly to personal remittances, institutional remittances should also be recorded as a memorandum item⁵. The consultation process, however, indicated only a narrow margin in favour of treating institutional remittances as memorandum item as opposed to supplementary item.

(e) Total remittances

24. Total remittances were defined as the sum of personal and institutional remittances. Total remittances would also be recorded as memorandum items, as a result of the TSG recommendation of treating both personal and institutional remittances as memorandum items.

D. Impacts on the 1993 SNA and considerations

25. The TSG recommendations on remittances, if approved by BOPCOM, will bring the BOP transactions in line with the 1993 SNA. There are no impacts on transactions and aggregates in the 1993 SNA.

26. The recommendation of eliminating the concept of migrant from the 1993 SNA and using only the concept of residence is more a clarification of terminology within the 1993 SNA and, de facto is already implemented by countries. The question to the AEG only refers to this latter issue.

E. Question to the AEG

Does the AEG agree with the TSG recommendation of eliminating the concept of migrant from the 1993 SNA Rev.1?

⁵ In the balance of payments, memorandum items are items that are mandatory to compile as opposed to supplementary items whose compilation is recommended but it is not mandatory.

ANNEX

TABLE I. PERSONAL REMITTANCES

SNA and BOP transactions	Personal transfers	Personal remittances
Services		
Expenditures by non-resident workers traveling abroad		-
Transportation costs abroad of non-resident workers		-
Income		
Compensation of employees		+
Current transfers		
Current taxes on income, wealth, etc. (D.5) (COE related) ¹		-
Social contributions (D.61) (COE related) ¹		-
Miscellaneous current transfers (D.75)		
Current transfers between households	+	+
Workers remittances	+	+
Other household transfers (e.g. gifts)	+	+
Lotteries and gambling	+	+
Compulsory payments (e.g. alimony)	+	+
Capital transfers		
Migrants' transfers		
Other capital transfers (household to household)		+

¹ These items are used to calculate net compensation of employees.

TABLE II. INSTITUTIONAL REMITTANCES

SNA and BOP transactions	hh→ NPISH	NPISH → hh + NPISH	Government → hh + NPISH	Corporations → hh + NPISH
Services Travel (part, COE related)				
Income COE				
Current transfers				
Current taxes on income, wealth, etc. (D.5) (COE related)				
Social contributions (D.61) (COE related)				
Social benefits other than social transfers in kind (D.62)				
Social security benefits in cash (D.621)		√	√	
Social insurance benefits (D.622 – D.623)		√	√	√
Social assistance benefits (D.624)		√	√	
Social transfers in kind (D.63)		√	√	
Other current transfers (D.7)				
Miscellaneous current transfers (D.75)				
Personal transfers				
Compulsory payments		√	√	√
Transfers to NPISH (e.g. donations)	√	√	√	√
Capital transfers				
Migrants' transfers				
Other capital transfers (part)	√	√	√	√